MONTGOMERY WARD

results at a glance

	1966	1965
Net Sales	$1,894,123,278	$1,748,360,155
Earnings before Federal Income Taxes *(including all subsidiaries)*	27,467,438	41,710,876
Earnings after Federal Income Taxes	16,528,438	23,962,876
Earnings Reinvested During Year	2,972,347	10,407,801
Stockholders' Investment	659,817,829	656,733,053
Investment per Common Share	51.32	51.09
Earnings per Common Share	1.24	1.83
Dividends per Common Share	1.00	1.00

letter to stockholders:

Retail and catalog sales set new highs in 1966. We opened a record number of 31 new retail stores and total sales increased 8.3% to $1,894,123,278 as compared with an increase of only 3% last year.

Following five years of steady increases, earnings dropped from $23,962,876 to $16,528,438 because of losses in catalog operations, a substantial increase in interest cost for short-term borrowings and other rising costs of doing business—manpower, merchandise, maintenance, taxes and services.

These cost increases especially affected the catalog part of our business which, along with most of the catalog industry, has been suffering from rising costs in recent years. To combat this trend, we have been undertaking changes from manual to mechanized operations with installation of computers and mechanical handling equipment. We expect economies from the new systems will favorably affect 1967 earnings.

Retail sales were the best in our history and the profits of our large new stores in metropolitan areas exceeded those of stores in non-urban areas both in dollars and in relationship to sales. We have concentrated major efforts to establish bases in metropolitan communities and we have passed the peak of expense for new market development, for new store openings and old store closings.

Despite the operating difficulties encountered during 1966, we continued development of our young, hard-hitting and aggressive executive team of merchandisers who are making Wards a successful growth company. We are devoting 12 pages to report upon the great diversity of talent and experience that we have brought together during the past five years as the foundation of a new Montgomery Ward. Qualifications and accomplishments of some of our key management executives are presented as an important part of this report.

These are some of the men who have converted Montgomery Ward from a rural oriented merchandise company, with catalog profits as its backbone for most of its history, to a highly competitive national urban retail chain which now is prepared to obtain most of its future profits from large stores in metropolitan areas.

The Company lost the services of Mr. Philip R. Clarke with his death last October. The contributions he made as a Director for 25 years and as Chairman of the Executive Committee the past 10 years had a profound effect on Ward's progress.

Mr. Lenox R. Lohr will be retiring as a Director at the end of his present term on May 11. The Board of Directors has expressed its sincere appreciation for his 11 years of dedicated service to the Company.

In January, Mr. James J. Nance was named Chairman of the Executive Committee, succeeding Mr. Clarke. Mr. Nance has been a director since 1962 and has had broad experience in manufacturing and banking.

Details of the financial, retail, catalog and other phases of our operations for the year are fully explained with tables and charts in the following pages.

Respectfully submitted,

Edward S. Donnell   Robert E. Brooker

Edward S. Donnell, President   Robert E. Brooker, Chairman

April 3, 1967

Robert E. Brooker, *Chairman*

Edward S. Donnell, *President*

financial trends and developments

Financial statements in this report are consolidated for the first time to reflect the combined financial positions of Montgomery Ward & Co., Incorporated, Montgomery Ward Credit Corporation, Montgomery Ward Realty Corporation, and M-W Properties Corporation for 1966 and 1965. This simplified form of reporting the financial position of the company should clarify evaluations of the company's complete scope of merchandising activities.

SALES AND EARNINGS

Sales of merchandise were a record $1,894,123,278, an increase of 8.3% over sales of $1,748,360,155 last year. Retail sales were up 9% compared with last year's increase of 6% and catalog sales were up 6% compared with a decrease of 3% last year.

Earnings for fiscal 1966 were $16,528,438, equivalent to $1.24 per share of common stock, as compared with 1965 earnings of $23,962,876 or $1.83 per share, a decrease of $7,434,438.

The rapid rise in interest costs during 1966 was a major reason for the decline in earnings. Interest costs were $14.5 million higher than 1965, equivalent to 60¢ per share after taxes.

COSTS AND TAXES

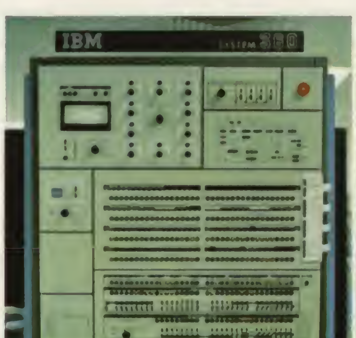
Wage and salary costs continue to rise because of the tight labor market and legislative increases in minimum wage rates. A one-year extension of labor agreements due to expire in August was negotiated with the Teamsters Union and wage increases have been granted in keeping with competitive changes across the country. Also affecting the Company's wage and salary costs are higher payroll taxes legislated to finance Social Security benefits. Pensions, savings and insurance programs were raised to competitive levels at a total cost of $37,648,933 in the past five years.

Federal income taxes reflect investment tax credits on expenditures made for fixtures and equipment. These credits totaled $1,524,226 in 1966 and $1,617,327 in 1965.

The Company elected to file a consolidated Federal income tax return for the year ended February 2, 1966. This was done to permit the Company to realize more fully the cash benefits of deferring Federal income tax on the gross profit on installment receivables. At February 1, 1967, the deferred Federal income tax liability from installment sales and the use of accelerated depreciation amounted to $60,365,000 and $16,315,000 respectively. Other than for the interest savings on funds that otherwise would have been borrowed, these deferrals had no effect on reported earnings.

SALES GROWTH

1966 sales were restricted by high money costs. Programs that were designed to stimulate sales growth were modified to preclude the necessity of borrowing additional funds to support larger inventories and customers' receivables. Actions were effective and year-end levels of both approximated those of 1965. Sales growth, which had increased 14.7% in the first half of the year, was retarded by these restrictive programs and increased only 3.3%





in the second half of the year. For the entire year sales increased 8.3% as compared with 3% in 1965. Strong credit and promotion plans have been reinstated for 1967 to attract new customers and to generate more sizable sales increases.

CREDIT SALES

Credit sales to customers increased to $838 million in 1966 compared with $819 million in 1965. As a proportion of total sales, this was a decline from 47% to 44%. To hold accounts receivable under 1965 year-end levels, management took steps to accelerate payments on customer accounts. Although a direct result of this action was a reduction in the average balance of customer accounts from $176 to $167, the number of active customer accounts increased by 234,000.

Borrowings for increased credit sales in 1967, if required, will be met by a debenture issue of Montgomery Ward Credit Corporation. This, combined with funds to be obtained from several sale-and-lease-backs, should meet financial needs for 1967.

CAPITAL EXPENDITURES

Capital expenditures for 1966 were $57,865,851 as compared with $68,202,515 in 1965 and are scheduled to drop to $35 million in 1967 now that we have completed our major expenditures for modernizing old facilities and opening up new market areas. Depreciation charges totaled $22,057,552 in 1966 and $19,151,531 in 1965.

Expansion and modernization of retail facilities and investments in installations of new information

processing and material handling equipment account for the continuing increase in depreciation.

DIVIDEND PAYMENTS

Dividends of $1 per common share and $7 per Class A share were paid to stockholders, amounting to $13,556,091 in 1966 and $13,555,075 in 1965.

NEW SUBSIDIARIES

Earnings of the Pioneer Trust and Savings Bank, tenth largest in Illinois, increased $300,000 to $1,250,000 during the eleven months of ownership by Montgomery Ward. Further profit growth is anticipated in 1967 and in succeeding years.

Montgomery Ward Life Insurance Company sold its first policy on October 15, 1966. By fiscal year-end, more than $300 million of insurance had been written, including the transfer of the group insurance policy for Ward employees.

A new Centralized Information Processing Center in Chicago began serving the information needs of the entire Company late in 1966 as a major step forward in the integration of new management control techniques into Ward's merchandising operations. Twenty-five computer systems now are communicating with each other in 13 retail, catalog, merchandising and administrative office locations from coast to coast.

retail and catalog expansion continues

More people are learning about Ward merchandise values in 1967 through 50 million catalogs and $50 million of newspaper, radio and TV advertising, including 400 million roto and color sections. Campus fashion shows are a new feature of Ward's consumer education programs with current and futuristic fashions being presented to student audiences, as at the University of Southern California (right).

Retail sales rose to $1,343,100,000 in 1966, up from $1,229,700,000 the previous year. Customers in urban areas purchased more than $1 billion of merchandise from Ward retail stores last year, accounting for 70% of total retail sales.

In 1966, 31 large modern stores were opened and 40 obsolete stores were closed. Average sales per store increased $275,000 during the year.

In 1967, 21 new stores will be opened to expand present Montgomery Ward market areas—14 in better shopping locations as larger, modern replacements for old stores; 7 to serve new customers in additional areas of those metropolitan markets presently served by other Ward stores.

SMALL STORE PROBLEMS

Future profit prospects of 100 small stores were analyzed last year. These stores are in communities that are not growing in population or per capita income. They must compete with small local merchants who are exempted from the minimum wage laws that increased rates from $1.25 per hour to $1.40 last February 1 and will require a further increase to $1.60 per hour on February 1, 1968.

The closing of unprofitable retail stores will be continued. Of the 40 closed in 1966, 19 were replaced by new stores, 13 were converted to catalog stores, 3 to catalog sales agencies and 5 were not replaced. 1967 store closings again will approximate 40, with 26 scheduled for conversion to catalog outlets.

YOUTH PROGRAMS

Support of youth development projects was increased as 111 stores graduated more than 100,000 "girls of all ages" from Wendy Ward charm, good grooming and etiquette courses. The Company's 45-year sponsorship of national 4-H competitions was updated this year to include consumer education for the 1¼ million young people who annually compete for county, state and national awards.

Many Ward stores also are presenting recognition awards to outstanding high school students in cooperation with civic, educational, business and religious leaders of local communities. In the field of education, approximately 500 high school stu-

dents majoring in Distributive Education courses now are obtaining work experience in Ward stores.

Services for customers continue to be improved and extended as periodic surveys of customer attitudes undergo evaluation. In support of our programs to "service what we sell," a 34% increase was reported in service contract sales last year.

RECORD CATALOG SALES

A new record was set for catalog merchandise sales, $551 million compared with $519 million in 1965 and $535 million—the previous record—in 1964.

Growth prospects for catalog sales were never greater. Because of changing cost patterns, once efficient distribution systems grew obsolete and uneconomic and have been undergoing major and costly changes since 1963.

Direct mail sales again declined, dropping to 18% of our total catalog sales volume. Catalog sales are made primarily through company-owned and operated catalog stores in 793 communities and catalog service desks in Ward's 493 retail stores.

COST-CUTTING PROJECTS

Action to halt rising costs of catalog operations is evident in the new systems, equipment and techniques that are being introduced in all phases of the Company's catalog business:

- Mechanization and computerization of catalog operations is proceeding rapidly with good results. By fall, two-thirds of the rebuying of catalog merchandise will be centralized in Chicago instead of among nine separate catalog house buying staffs.
- The processing of customer catalog orders by computers has been under test for 2½ years in our Kansas City facility and new systems will be installed in two additional catalog houses in 1967.
- Speedier and more economic systems of distributing catalogs and promotional mailings have been installed and are being used effectively.
- To offset steadily rising costs of paper, printing and postage, a new method of catalog placement was used in 1966, resulting in 6% more sales with 10% fewer general catalogs.
- An intensive program to maintain assortments but to close out slow-moving and obsolete lines will result in a 20% reduction in the number of stockkeeping units in catalog houses for 1967. This has resulted in a decrease in warehousing and handling costs. Sales of the full merchandise lines that were cut back generally are showing increases. This program will be continued as we concentrate on the sale of faster moving merchandise.
- Establishment of catalog sales agencies—a form of distribution that is carrying Ward merchandise into many additional small communities while requiring a minimum of capital investment—has been accelerated. At year-end, 569 of these independently-owned agencies were in operation, some replacing company-owned catalog stores and some producing more sales per catalog customer than company-owned stores.

computers & science improve merchandising

Great strides in the use of electronics in merchandising are being made by Montgomery Ward to improve services to customers and to reduce costs. The once simple task of buying and selling merchandise has reached such a degree of complexity that this work no longer can be handled manually. The changeover of long-established merchandising procedures and record-keeping into electronic impulse systems is one more phase of the many revolutions that are overlapping each other in retailing. Wards has committed major investments to speed up the use of electronic and mechanized systems to combat the upward trend of costs of labor, materials, money, services and taxes.

NEW COMPUTER CENTER

A new Corporate Information Processing Center was inaugurated in Chicago last December. It is the most modern and complete installation of its type in the retailing industry. Equipped with third-generation computers, it permits intercommunication among the Company's 25 computer systems, including the New York buying office, the Baltimore, Chicago, Kansas City and Oakland regional headquarters, and all catalog houses. This new system will help merchandisers determine what customers will want to buy each week and each month from stores and catalogs. It also will provide more accurate and up-to-date inventory, sales, financial, operating and other reports essential to effective management.

INVENTORY REDUCTION

A computer analysis of demand for each of 130,000 stockkeeping units in catalog houses produced facts in 1966 that indicated 20,000 could be eliminated with a minimal effect on sales. These items were dropped from the 1967 Spring and Summer Catalog. Results to date show no adverse effect on sales of any product lines where reductions were made. Benefits include reductions in inventory investments and the additional economies accruing from the elimination of the effort and costs of buying, listing and handling of these 20,000 stockkeeping units. A computerized National Replacement Parts Center,

Montgomery Ward's product guarantees are based upon scientifically precise tests conducted by skilled technicians and engineers. Modern laboratories in New York and Chicago, including a new Research and Development Center completed in 1966, are equipped with the most advanced and sophisticated instrumentation equipment available for physical, chemical, electronic and environmental testing of materials and product performance. All merchandise items must meet Ward's strict manufacturing specifications and intensive quality control standards before they are approved for customers.

25 miles west of Chicago, in April began serving the needs of all stores, service centers and catalog locations by air freight and truck on a faster basis than the old system. Duplicate warehousing of parts has been eliminated and computers are controlling inventories, shipments and accounting.

NEW TEST LABORATORIES

A new Merchandise Research and Development Center has been constructed in Chicago to test the quality and analyze the performance and durability of merchandise which will carry the Montgomery Ward guarantee of satisfaction. In addition to pre-testing products before they are accepted from manufacturers, laboratory technicians make comparative tests of competitive products and regularly inspect the quality of products as they are manufactured.

Many laws are being proposed to give consumers more information so they will manage their money more wisely. This has been the lifelong objective of Montgomery Ward managements which have supported those well-written laws that help consumers make intelligent buying decisions. Wards also has encouraged credit laws designed to insure that consumers are fairly informed on credit charges but has opposed poorly-drafted laws that unfairly penalize retailers and confuse consumers as to the cost of retail credit.

CONSUMER INFORMATION

A sound retail industry and our American economy depend upon rational consumer choices. This means full and fair disclosure of product information. Wards designs its own packages to make certain that customers receive clear and accurate descriptions of product characteristics and constantly reviews its advertising for accuracy and responsibility. Communications with customers are regularly reviewed with sales personnel to make certain that descriptive information being provided on all products is dependable enough for customers to rely upon it when making buying decisions.

It is our conviction that: Well-informed consumers are Montgomery Ward's best customers.

"this is a people business...."

An experienced and enthusiastic young management team has been developed in the past five years to form the nucleus of a NEW Montgomery Ward as it approaches its 100th Anniversary of serving the needs of many generations of American consumers. This section of the Annual Report presents brief career sketches of some of the men who are sparking the growth and expansion of the Company. They are corporate executives in the home office, vice presidents in regional field headquarters, and the men who are managing Ward's retail operations in metropolitan areas. These are executives whose leadership inspires employees to want to serve every customer better every day. The task of managing this corporate enterprise, its $1\frac{3}{4}$ billion of assets and close to $2 billion of sales is the responsibility of Robert E. Brooker, Chairman, and Edward S. Donnell, President.

As President of Montgomery Ward, ***Edward S. Donnell*** *in the past year has been in more stores and talked with more people about problems, opportunities, merchandise and service than any other person in the entire organization. In his words, "This is a people business and it is their enthusiasm that is a prime ingredient in producing the extra sales that are the base for better profits and continued expansion of our business." And, he adds, "to spark this kind of enthusiasm, we want executives who are people-oriented, who are sensitive to merchandise and to market problems, and who have fun in getting their daily quota of sales and profits." Donnell has exemplified these characteristics from the time he began "breaking" tires off of rusty rims in 1941, through a succession of positions in merchandising and retail store development, including the presidency of Sears, Roebuck & Co. in Mexico and manager of Sears largest group of stores in Los Angeles. In 1962, he accepted the challenge of bringing together a management team to build the facilities and manpower needed by Montgomery Ward. In a paraphrase of one of his heroes of history, Donnell says "Very few managements have ever been asked to do so much in such a short period of time." Yet, it is being done.*

Merchandising for a national retail chain organization covers the full range of marketing tools and methods—computer systems, market analysis, comparison shopping, product engineering and development, quality control test labs, designing, procurement of merchandise, display, store planning, packaging and advertising promotions. The task of coordinating these functions is the responsibility of Vice President **Charles W. Wood.**

"In our part of the business, everyone must be an expert in his field," stresses Wood. "My task is as simple as that of a pro football coach—when every man does his job and a little extra, you can't lose...and that's the kind of team we have built at Wards, a team of experienced marketing 'pros'."

Wood joined Wards in 1960 following a successful merchandising career with W. T. Grant, Associated Merchandise Corp., and The Dayton Co. in Minneapolis.

The financial planning and the financial services of the corporation are the responsibility of Vice President **Andrew Lamb.** A native of Sheffield, England, he was educated in the United States and held financial positions of increasing responsibility with nationally-known corporations before joining Montgomery Ward in 1957 as assistant to the financial vice president. He served as Treasurer for seven years and took over his present assignment as Financial Vice President in 1965.

Lamb has been responsible for the development of the Company's credit corporation, the creation of the real estate corporations, the acquisition of a bank and, most recently, the launching of a life insurance company. He serves as trustee of the Company's pension and savings funds and is President and Director of Ward's credit corporation and real estate corporations.

In a large national corporation, the operating programs and the problems of control are of fundamental importance and require experienced management. **Harold F. Dysart,** Vice President and General Operating Manager, has 33 years of such experience.

He started with Wards as an accounting department trainee in the Fort Worth catalog house in 1933 and then moved to expense control jobs in Kansas City and Chicago's corporate headquarters. At this stage he successfully switched his career to the responsibilities of general management, being appointed successively as manager of the catalog houses in Portland, Kansas City and Chicago. In 1956, he became assistant to the vice president in charge of mail order and in 1958 was elected Vice President and General Operating Manager. In his present position he also is responsible for mechanization and computerization of large segments of Ward's operations.

Credit is an integral part of merchandising programs at Montgomery Ward where almost 5 million customers now carry charge accounts exceeding $800 million. The man who has the responsibility for managing this part of the business must have a balance of experience in merchandising and finance.

Ashley D. DeShazor, Ward's Credit Vice President, has 26 years of national merchandising experience, as a buyer, manager of three merchandise departments, procurement manager and credit division manager. He also is a member of the Company's finance committee.

"Consumer credit serves a vital purpose in our economy," says DeShazor. "It is especially needed by an important group of customers—young families—to help them establish households and budget expenditures."

Chett A. Eckman brings a record as an experienced administrator, leader and problem solver to the recently established position of Corporate Catalog Manager and Assistant to the President. His responsibility is the overall planning and coordination of catalog operations and development.

Twenty-two of Eckman's 26 years with the Company have been devoted to catalog operations and merchandising. Starting as a stock helper in the Kansas City catalog house, Eckman has filled many top administrative positions. His experience includes the jobs of merchandise manager of the Baltimore and Chicago houses, general manager of the Albany and Fort Worth houses, and distribution and operating manager of Ward's 20-state eastern region.

Never one to meet a challenge halfway, Eckman says adoption of new operating and merchandising programs and techniques, in conjunction with modernization of old procedures, will provide dramatic cost reductions in 1967 as a foundation for modernizing Ward's catalog business to meet future growth opportunities.

When **Daniel Walker** interprets the law, supervises litigation, executes legal documents, prepares information for Board of Directors' meetings or represents the Company before governmental agencies, everyone is confident he has dotted the final legal "i."

The Company's Vice President, Secretary and General Counsel graduated from the U.S. Naval Academy in 1945 and Northwestern School of Law in 1950, launched his career as law clerk to U. S. Chief Justice Fred N. Vinson, moved on to become Deputy Chief Commissioner of the U. S. Court of Military Appeals, and in 1952 joined Gov. Adlai Stevenson's staff as administrative assistant. From 1954 to 1966, when he joined Montgomery Ward, Walker gained further experience and a reputation as a corporate and trial lawyer while a partner in a leading Chicago law firm.

The selection and motivation of more than 100,000 men and women in thousands of Ward locations is the task and challenge that **John D. Foster,** Vice President-Personnel, must meet through his leadership of a large team of corporate, regional, district, catalog house, and store personnel managers.

Foster's philosophy is simple: "Get the best qualified candidate for each job and motivate all employees to achieve their optimum potential." His influence on the development of management personnel can be measured by the scores of men-on-the-move who have completed management training programs, problem solving courses, and decision making and sensitivity seminars. He also has set up a program for executives to attend advanced management courses at Harvard and M. I. T.

"Motivation at all levels is our chief objective," says Foster. "Our day-to-day efforts are concentrated on intensive employee training programs, appraisal systems, sales incentives, and employee benefits which compare favorably with the best in the merchandising industry."

eastern region

From the Baltimore regional offices, the eastern region extends from the Canadian border to West Palm Beach, Fla., and from the Atlantic coastal states to the Mississippi River. In this 20-state area are 109 retail stores, catalog houses in Baltimore and Albany, 172 catalog stores, 103 catalog sales agencies, and 23,000 employees.

In 1959, only two eastern region stores had annual sales exceeding $4 million. Today, 20 stores exceed the $4 million mark. Last year, 42 new stores, or 39% of the total number, produced 65% of the region's total retail sales. From 1961 through 1966, the number of regional credit accounts were increased 39%.

Although the eastern region has opened six stores in New York, four in Pennsylvania, two in New Jersey, two in North Carolina, and one in each of several other states, most of its expansion effort has been concentrated in the Baltimore-Washington and Florida markets.

The first breakthrough in the Washington market came in 1960 with the opening of the Wheaton, Md. store, northwest of Washington. Three major stores have since been added to the Washington area. Three modern stores have been opened in the Baltimore metro and the large store attached to the catalog house has been completely rehabilitated. To keep pace with Florida's recent residential growth, 10 modern stores have been established.

Of the region's total retail sales, 53% come from 23 stores in these three markets.

"It's fast...something new every day...everything is vital ...nothing trite...it's people and problems and getting things done...it's pride of accomplishment and wanting to win... it's helping people develop and grow into better jobs"... such is merchandising and retailing in the career of Ward's Eastern Region Vice President **Martin D. Munger.**

The men who have worked with him during his 34-year career with Montgomery Ward report there never is a dull moment when you work for "Marty." He makes things happen and he keeps people on the move.

Through the years, many Ward managers and executives have emulated their boss, even as he attributes his own success to what he learned from the methods, mistakes and philosophies of the men who were his bosses.

A firm believer and practitioner of clear, concise communications, Munger believes that any problem can be solved when people understand what is wanted. And the managers of eastern region operations report there never is any doubt about what their boss wants. They understand him and they know he judges all who report to him on the basis of facts, not words.

As a veteran administrator, Munger believes those who have top jobs are the "men who want to win, who like to work with people, who are sensitive to merchandise and who surround themselves with good people." And such are the men who work for Munger.

washington

Bart Brown has a record of 25 years of success, including the management of four stores (from Dover, N. H., to Daytona Beach, Fla.), a zone and now a district—all without a decrease in sales or earnings. ▪ Brown believes "Merchandising is a continuous drama. Live it and work at it and each day becomes a new adventure." ▪ When appointed district manager of the five-store Washington, D. C., area last year, he again put into practice his five-word philosophy—"I am a people man." In the Washington market, where huge government offices attract most available manpower, Brown's "people philosophy" has been a key factor in attracting and holding good people as employees, the kind of men and women who can open up a new market area for Wards and win the reputation of being "the friendliest stores in town." ▪ The momentum for achieving sales and profit increases is being sustained by employees, full-time and part-time who, like Bart Brown, have discovered that retailing is exciting.

jacksonville

If you're a Ward metro district manager in a community that is working its way out of a localized recession, you get busy and help. That's the current picture of Bill McKalip in Jacksonville. ▪ With home building at an all-time low and local taxes higher, McKalip takes an active interest in civic organizations devoted to strengthening the economy through new businesses and area improvements. McKalip's primary concern has been to win new customers for Ward's three Jacksonville stores, all opened since 1960. His emphasis is on youth and strong employee and management development programs. ▪ "We are building a solid foundation of new, young customers through the Wendy Ward charm course, sports advisory board promotions, baseball schools, and the Young American Awards program for high school students," says McKalip. "Retailing is very sensitive to economic changes and our sales results indicate we, and our community, are beating our problem."

baltimore

In his first job as wallpaper department manager in Ward's Altoona, Pa., store 34 years ago, Jack Adelson's sales were second only to the largest wallpaper department in the Company. His string of successes has continued unbroken through store manager, retail district, and metro district assignments. ▪ In his first full year in the highly competitive Baltimore market, the five stores in his metro district produced good sales and profit results. ▪ "All it takes is the right people in the right jobs," says Adelson. "Developing people for greater responsibilities is a manager's most important job. If he does it right—good results usually follow." ▪ Adelson insists every store can be profitable no matter what the problems are. "There's always a key. First, you must carry out the Company's basic fundamentals of merchandising, display, and advertising. Then you must try different approaches over and above the fundamentals and keep trying until you find the key to outpace the competition in your own market area."

mid-florida

The growth potential of Montgomery Ward in Florida is greater than any area in the United States. Penn Carolan, Florida metro district manager, believes this and few will disagree with the former Big 10 All-Conference tackle from Wisconsin who stands 6 feet, 4 inches tall. But Carolan has more than size to back his words. For 15 years he developed successful merchandising and sales promotion programs as manager of stores and districts in the southeastern states for Sears, Roebuck & Co. ▪ From manager of one of Ward's largest stores in the Washington, D. C., area, he was assigned to manage the sprawling 12-store coast-to-gulf Mid-Florida district. Six of the district's stores were opened since 1964. ▪ "The future of Florida presents a great opportunity for Wards," says Carolan. "We have the strategic locations and the merchandise organization to serve the rapidly increasing number of customers who are moving into this great area. It's a big job and we're on our way."

north central region

The north central region leads all others in sales and has the most retail stores, 175, and the largest number of employees, 35,000.

From its Chicago State Street headquarters, the region extends in all directions to include six states and parts of five others with 24 large retail stores located in three of the largest metropolitan areas of the Great Lakes states—Chicago, Detroit, and St. Paul-Minneapolis.

The region has catalog houses in Chicago and St. Paul, 221 catalog stores, and 184 catalog sales agencies.

The Company's two largest metro districts have paced the region's 42-store expansion program which was launched in 1958. For the first time since 1872, when A. Montgomery Ward founded his mail order business in a small shop on North Clark Street, the Company has established a strong foothold in the Chicago retail market. From a few scattered stores in 1957, the district has been developed into a coordinated 12-store merchandising organization with a complete management staff. In 1966 it produced the highest metro sales volume in the Company. The modernized State Street store in Chicago is Ward's largest retail store, occupying five floors of the eleven-story Montgomery Ward building.

New stores in the Detroit area have enabled Wards to increase sales by two-and-one-half times in this market. In the St. Paul-Minneapolis area, where the Company now has four large, modern stores, sales also have been increased two-and-one-half times.

James Lutz came to Chicago in 1938 from a textile engineering school and job in Europe. At 19, he earned his first meals as a bus boy, then became a helper in the Sears mail order house. Soon he was on his way up in the organization, tackling successively bigger and tougher jobs in mail order and retail assignments. He gained national retail chain management experience as manager of comparison shopping, piece goods buying, textile converting and children's wear departments.

From 1960 to 1963, he was President of McCrory's, a diversified chain in the men's furnishings, automotive and variety stores business. Now, as Vice President, he heads up Ward's largest region. His philosophy of management could come straight from Harvard, Wharton or Stanford:

"To manage well, you must surround yourself with men of outstanding capabilities, set an example of leadership and knowledgeability, be a good communicator, set standards and objectives, encourage others to make their own judgments and allow them to make mistakes, evaluate them frequently, visit them on their jobs and see how they get along with others, and then help them grow by giving them fair-minded criticisms and assistance."

Says Lutz, who served in the infantry overseas in World War II, of his management team, "We've been battle tested and toughened. We've had most of the problems any retailer could ever experience; now we've got the big offensive going and nothing's going to stop us."

akron

From stockman in 1934, W. W. "Woody" Shine has advanced to a top retail management position because "I learned early that Montgomery Ward is in business to sell merchandise at a profit and I've never forgotten it." Evidence of his good memory is the Akron metro district's profit improvement under Shine. ▪ He was named manager of the metro's Cuyahoga Falls store in 1962 and two years later was given the added responsibility of metro district manager. ▪ "The future of our metro looks great," says Shine. "We have a strong organization. We have good credit customers who shop regularly and we enjoy excellent collection experience, particularly among the young families who will be with us a long time." ▪ Statistics show Shine also is a good trainer of men. Since 1963, 34 employees have been promoted from the Akron metro to bigger jobs in other Ward locations.

detroit

Ward leadership has a double meaning in Detroit—Montgomery Ward and Don Ward, metro district manager since 1963. Aggressive merchandising is imperative for successful penetration of the retail market of the world's automotive capital. Under Don Ward's leadership, the 12-store district produced the second largest volume of retail sales among metro districts in 1966 and topped all metros in profits with a 33% improvement over 1965. ▪ Don's introduction to retailing came as a part-time employee while enrolled in his high school's Distributive Education courses in Everett, Wash. In 1941 he began his full-time career as a tire salesman. He has compiled a classic record of experience and advancement: salesman, department manager, assistant store manager, store manager, and key assignments in district and regional offices. ▪ Talking about sales and profits, Don says, "People are the foundation of our business, and we have good people."

chicago

When Wards management decided in 1962 to become a major retailer in its headquarters city of Chicago, it called in Bob Daly, a man whose life had been sparked by competition. He was a college All-Star football player in 1939, served in 32 World War II Pacific island engagements, and accumulated 23 years' national merchandising experience in retail staff positions, personnel administration, and management of three Sears stores. ▪ His biggest task, however, was developing a retail store chain in Chicago where Wards had little more than token representation. Already it is the largest in the Company with 12 retail stores, 18 catalog stores, and the highest total sales volume of any metro district. ▪ Managing this rapid expansion in the front yard of the Company's corporate headquarters posed many problems. Now, with full confidence, Daly reports, "We've rounded the corner. We can measure progress by earnings increases."

st. paul

Wards youngest metro district manager, Roy Svee, 42, enjoyed the "thrill of my lifetime" when he recently returned to his home state as manager of the St. Paul metro district, the Company's largest retail operation in Minnesota. ▪ Svee earned the assignment with a record of sales and profit increases in every position he has held during 19 years of challenge with the Company. A high point was Southgate, Mich., a large shopping center store, which produced a sales increase of 38% and a significant profit improvement under his leadership. ▪ Svee joined the Company in 1947 as a management trainee in Duluth, Minn. He has been an assistant store manager, district and regional merchandiser, and manager of one small store and two new stores. Prior to his promotion to St. Paul, he was merchandise manager of the north central region. ▪ Sound planning and motivated, enthusiastic people are cited by Svee as the requirements for perpetuating a successful organization.

south central region

Expansion is the key word in the south central region where 47 new stores have been opened since 1958. The Company's largest geographic region extends from the Rio Grande River to northern Montana, and from the Great Salt Lake across the wheat belt of the nation to the Mississippi River—including 11 states and portions of 5 others. Nerve center of the region is Kansas City, where the first catalog house outside of Chicago was built in 1905 when the Company began its catalog expansion. The management task is to build sales and profits among 24,000 employees in 137 retail stores, catalog houses in Kansas City, Denver, and Fort Worth, 286 catalog stores, and 175 catalog sales agencies.

Twenty of the 47 stores opened in the region since 1958 are in Texas—5 in the Dallas-Fort Worth market, 3 in Houston, and 2 in San Antonio. This strong Texas market now has 28 Ward stores.

In 1966, the region's new stores produced almost two-thirds (61%) of its retail sales.

Ward's nationally successful Charg-all revolving credit plan was first tested and successfully inaugurated in the Fort Worth house territory and, in the past four years the region has increased by 40% the number of credit customers who are buying regularly from Wards. The south central region also pioneered in the Company's catalog mechanization programs and systems. To facilitate the handling of catalog merchandise, regional catalog houses developed, tested, and adopted mechanization, merchandising inventory, and order processing systems.

"The men who serve our customers best, and our Company, are those who have a depth of retailing experience and who have fun on their jobs. They enjoy going to work every day because the new problems and challenges excite and stimulate them. They are strong competitors, they have merchandise sensitivity and they are completely involved in both the present and future of our business. They even will take the time to stop and help a young trainee solve his problems."

These are the types of men who have risen to the top of the management team built by **Sidney A. McKnight,** South Central Regional Vice President.

"Sid" says, "As a Montgomery Ward trainee in Joplin, Mo., the merchandise business got in my blood and I began to feel that I was a part of Montgomery Ward and that I had a part to play in keeping it moving ahead."

This he has done, as a hardware merchandiser, a tire man, a fashions merchandiser, manager of several stores, and in many administrative jobs with increasing responsibilities.

For the past 13 years, Sid McKnight has managed the second-largest sales volume region of the Company. His career of 30 years in this same region has given him a tremendous advantage which he values above all else. He knows the people who work with him and they know they can talk with him or phone him from any part of the region at any time because they know they will be heard and that Sid will help them work out their problems.

houston

Houston Metro District Manager Bill Davis has two loves, merchandising and ranching, which may explain why he is often called a "maverick." But Davis attributes his successful career to basic fundamentals and total effort. ▪ When he reported sales were up 91% in his first store manager's job, his laconic explanation was, "We ordered merchandise from the buying office, displayed it, and asked customers to buy it." ▪ Actually, he is a great promoter, leader and man of action. He conducts sales rallies, holds critiques with his three store managers, speaks to business and youth groups, and is on the floor of his stores each day. And, boasts Davis, "We have the largest number of effective outside sales promoters in Texas—satisfied customers."

san antonio

A conviction that Montgomery Ward stands firmly in the market place as a mass merchandiser of quality, style, and value merchandise has guided Lloyd Flood during his 24 years with the Company. ▪ "People want to buy where they get good merchandise at a fair price from personnel who will give them the service they have a right to expect," says Flood. "This is the role we strive to fill in the San Antonio metro." ▪ In addition to heading the three-store San Antonio district, Flood is manager of the district's Wonderland store which recently completed almost three years of consecutive weekly sales increases, an all-time Company record. In 1966, both the metro district and the Wonderland store had the Company's highest percentages of profit among all metro districts.

kansas city

Improvement of its solid position as one of the best merchandising operations in a growing, competitive market—that's the goal of the seven-store Kansas City metro district under John Heath, who, in 31 years with Wards, has established a reputation for producing steady profit improvements in every position he has held. ▪ His formula: Treat customers in a manner that will encourage them to shop Wards on a continuing basis rather than for one-shot specials. ▪ Because employees who deal with customers determine the success or failure of his formula, Heath says, "The greatest responsibility of managers is to fit people into the job they can do best with minimum, but adequate, supervision." ▪ Heath adds, "We have everything we need to satisfy our customers' wants."

denver

Basic merchandising fundamentals and good human relations are the tools used by M. L. Lloyd to build a successful career in the retail field. ▪ "To build a business," he emphasizes, "customers must be treated with honesty, fairness, dignity, and respect, exactly as spelled out in our credo—'Satisfaction Guaranteed or Your Money Back.'" ▪ Lloyd has demonstrated an affinity for success. His retail career started in 1935 when he joined a Sears store as a stockman. Six months later he became a department manager. Sales and profit improvements in every store management assignment earned him promotions to successively larger stores. He joined Montgomery Ward in 1964 to manage Ward's five-store Denver metro district.

fort worth

"A successful store," says Metro Manager Charles Wagner, "will have the right merchandise, irresistible displays, and salespeople who provide the type of service they would want themselves." ▪ This is the reputation being established in the Fort Worth-Dallas market with five new retail stores and another that has been modernized. That the program is effective is shown by steady sales and profit increases over the past five years. ▪ A merchant for 26 years—as a salesman, store manager and manager of the corporate contract and commercial sales department—Wagner has learned to squeeze maximum results from every idea and sales tool. He knows only one pace—maximum effort.

western region

With headquarters in Oakland, Calif., the western region extends from the southern borders of California and Arizona to Alaska, covering six states and parts of two others. The region includes 72 retail stores, 114 catalog stores, 107 catalog sales agencies, catalog houses in Oakland and Portland, and an average of 19,000 employees.

Ward's smallest region may have the greatest future as it expands with the nation's biggest growth area. It also has the distinction of being an area in which it has more new stores (40) than old (32), which largely accounts for the sharp merchandising image of Montgomery Ward among the millions of West Coast residents. Most of the new stores have been located in the fast-growing metropolitan complexes of Los Angeles, San Diego, the Greater San Francisco Bay area, Bakersfield, Las Vegas, Reno, Phoenix, and Tucson. New stores, which represent 56% of the region's number of retail stores, last year contributed 73% of its retail sales.

A measure of the region's rate of growth is the 50% sales increase from 1961 through 1966.

In line with the Company's view of Southern California's potential, a West Coast buying office, located in the new Rosemead store near Los Angeles, serves both the region and an increasing number of stores in other regions. The western region also is served by a Montgomery Ward paint factory and a completely mechanized floor covering facility. Both are located in San Leandro, Calif.

Frederick H. Veach, Vice President of the Western Region, is a "retailer's retailer" with an unbounded enthusiasm and optimism for the challenge of expanding Montgomery Ward.

Veach is a man whose every relative and every interest has been imbued with chain store and catalog retailing as a way of life. He reached his present position after a 16-year career of successes with Sears in 12 cities in California. He is an articulate spokesman for management by leadership and his metropolitan district managers are outstanding examples of such management.

What are the characteristics Veach seeks in top managers? "Men who can inspire, who are good organizers, who have the rare combination of being both good merchants and good administrators, and who can set an example that generates respect and admiration so people will want to do a good job for the boss as well as for themselves."

Some say these are the very ingredients responsible for the loyalty of the Veach "team" of managers in wanting to work tirelessly to do their jobs better.

They know they must have a sensitivity to goods and to people. They must be hard workers and good communicators, and they must demonstrate daily a balance of general administrative ability and merchandising knowledgeability.

By maintaining this balance, Veach expects Montgomery Ward to accelerate its momentum as the most rapidly growing national retailer west of the Rockies.

los angeles

Montgomery Ward is on the move in the Los Angeles area, one of the most competitive retail markets in the nation. In six years, the district has expanded from two stores to eight large stores, four truck tire centers and three central service units. In March, the district opened its fifth large new store in 16 months, a retailing record in a single market, and now plans to open two stores a year for the next five years. In three years, the district has grown from 750 to 3,500 employees. ▪ The man assigned the job of building Ward's new retail chain organization in this sprawling metropolitan complex is Norm Trenton, a young retail executive with unbounded faith in the success of the metro. During 15 years with Sears, Trenton held jobs ranging from loading dock helper to a top district position. He says, "We have come into this market with brick and mortar, services, top merchandise, and sound plans, and we have generated a sales momentum that is the fastest in the Company."

oakland

Bob Elliott spends about 80% of his time in the stores "because that's where the action is"...he is no deskbound executive. Elliott says, "Everything starts at the store level. That's the location of our most important people—the employees who meet the customers. They are the key to our success." ▪ In 18 years, Elliott has woven one of the most varied careers in the Company. With an economics degree from Washington-Jefferson College, he joined the Company as a trainee, later managed three stores, was a regional personnel manager, and managed a district before moving to the Chicago corporate office where he held positions as training director and operations planning manager. The lure of the field..."where the action is"...led to his appointment as merchandise manager of the western region in 1961. When the Oakland metro district was established in 1963, Elliott was the right man for the manager's job and he has proved he was ready.

phoenix

No one knows the Phoenix retailing market better than Joe Brannon. From 1952 through 1963 he successfully called the signals for Ward's major competition in the city. In 1964 he "switched" and he likes the flavor better. ▪ Ask Joe Brannon about district objectives and he says —"Spend wisely and make money." Ask him about competition and he says—"We're the competition." Ask him to name the single most important operating tool and Brannon will tell you, "Communications." ▪ He says, "In the three Phoenix stores our people know we have the best merchandise, the best prices, and the best future. Knowledge has given them confidence and they will always be leaders in competitive battles." The confidence and hard work of Phoenix employees carried the district to its third successive sales increase last year, with profits keeping pace. ▪ Brannon, a Notre Dame graduate, managed a retail district and three major stores during 35 years with Sears, Roebuck.

san diego

Montgomery Ward stores really swing in San Diego. Mornings start with rousing pep meetings. When major promotions are to be orbited they take on the air and trimmings of a national political convention. The pep sessions represent one aspect of the district's aggressive, well-planned merchandising and promotional program that is making Wards a sales leader in an area where the economy has been depressed and competitive retail space has more than tripled in the past six years ▪ For veteran retailer Elwood Powell, who became manager of the metro district in 1961, merchandising, sales promotion and human engineering are 24-hour-a-day affairs. Powell has been a man on the go with Wards for 33 years. Before taking over the three-store San Diego metro, he was corporate retail merchandise manager in Chicago where he built a Company-wide reputation as "Mr. Promoter." He says, "We've got 1,000 people in the district—and 1,000 reasons for success."

MONTGOMERY WARD & CO., INCORPORATED AND CONSOLIDATED SUBSIDIARIES

Statements of Earnings & Earnings Reinvested

EARNINGS

for the 52-week periods ended February 1, 1967 and February 2, 1966

	1966	1965
NET SALES	$1,894,123,278	$1,748,360,155
COSTS AND EXPENSES:		
Cost of merchandise sold, including net buying, operating, selling and administrative expenses other than itemized herein	$1,720,572,093	$1,584,359,560
Rents	30,075,859	27,825,920
Maintenance and repairs	8,332,403	7,169,028
Depreciation and amortization	22,057,552	19,151,531
Contribution to employees' savings and retirement plans	5,488,663	6,069,194
Property, social security and state taxes	37,334,820	31,100,961
Interest expense	45,423,213	30,973,085
Provision for Federal taxes on income	9,995,000	17,748,000
Total costs and expenses	$1,879,279,603	$1,724,397,279
NET EARNINGS FROM OPERATIONS	$ 14,843,675	$ 23,962,876
NET EARNINGS OF SUBSIDIARIES NOT CONSOLIDATED	1,684,763	—
TOTAL NET EARNINGS	$ 16,528,438	$ 23,962,876

EARNINGS REINVESTED

	1966	1965
BALANCE AT BEGINNING OF PERIOD	$ 445,542,702	$ 435,134,901
NET EARNINGS	16,528,438	23,962,876
Total	$ 462,071,140	$ 459,097,777
CASH DIVIDENDS:		
Class A stock —$7.00 per share	$ 974,568	$ 974,568
Common stock—$1.00 per share	12,581,523	12,580,507
Total	$ 13,556,091	$ 13,555,075
BALANCE AT END OF PERIOD	$ 448,515,049	$ 445,542,702

Explanatory notes to these financial statements appear on pages 24 and 25.

Balance Sheet

	February 1, 1967	February 2, 1966
ASSETS		
CURRENT ASSETS:		
Cash	$ 38,247,693	$ 31,673,339
Receivables, less reserves for doubtful accounts and unearned carrying charge income of $21,383,364 in 1967 and $20,346,636 in 1966	844,561,288	852,546,578
Merchandise inventories, at the lower of cost or market	408,433,275	400,205,598
Prepaid catalog costs, supplies, etc.	42,370,433	40,209,990
Total current assets	$1,333,612,689	$1,324,635,505
NET EQUITY IN, AND ADVANCES TO, SUBSIDIARIES NOT CONSOLIDATED	27,868,026	2,386,515
PROPERTIES AND EQUIPMENT, at cost less reserves for depreciation	344,211,887	311,576,122
DEBENTURE DISCOUNT AND EXPENSE, after amortization	3,634,588	3,868,468
	$1,709,327,190	$1,642,466,610
LIABILITIES		
CURRENT LIABILITIES:		
Notes payable	$ 460,618,489	$ 438,711,600
Accounts payable and other liabilities	104,780,532	110,284,668
Accrued expenses	55,038,673	51,919,454
Federal taxes on income, including $60,365,000 in 1967 and $14,900,000 in 1966 of deferred taxes on customer installment accounts	62,158,000	21,091,370
Total current liabilities	$ 682,595,694	$ 622,007,092
DEFERRED FEDERAL TAXES ON INCOME	$ 16,315,000	$ 14,343,465
LONG-TERM DEBT	$ 350,598,667	$ 349,383,000
CAPITAL STOCK AND EARNINGS REINVESTED:		
Class A stock, no par value—Authorized 205,000 shares non-callable, $7.00 per share cumulative dividends, issued 201,554 shares less 62,330 shares in Treasury stated at liquidating value	$ 13,922,400	$ 13,922,400
Common stock, no par value—Authorized 20,000,000 shares; issued 13,004,756 shares at stated value	211,231,385	211,231,385
Earnings reinvested in the business	448,515,049	445,542,702
	$ 673,668,834	$ 670,696,487
Less—Treasury common stock, 418,199 shares in 1967 and 423,334 shares in 1966, at cost	13,851,005	13,963,434
Total capital stock and earnings reinvested	$ 659,817,829	$ 656,733,053
	$1,709,327,190	$1,642,466,610

Explanatory notes to these financial statements appear on pages 24 and 25

notes to financial statements

PRINCIPLES OF CONSOLIDATION—The financial statements include the accounts of the Company and all wholly-owned subsidiaries except the newly established Montgomery Ward Life Insurance Company. In prior years, the Company's balance sheet included its investment in Montgomery Ward Credit Corporation and the Real Estate Subsidiaries plus accumulated earnings of these companies since acquisition and such earnings were reflected in Earnings Reinvested. For comparative purposes, the 1965 amounts have been restated to reflect this change and such restatement does not change the previously reported Net Earnings or Earnings Reinvested. The caption, "Net Equity in, and Advances to, Subsidiaries Not Consolidated," in the balance sheet includes the Company's investment in Pioneer Trust and Savings Bank (98% owned) and Hoffman Products Corporation (49% owned) and the Company's share of accumulated earnings of these companies since acquisition in the amount of $1,684,763 as of February 1, 1967, which amount is included in Earnings Reinvested.

COSTS AND EXPENSES—The Statement of Earnings sets forth certain merchandise costs and operating expenses. These same costs and expenses may also be presented as follows: cost of merchandise sold, including net occupancy and buying expenses, $1,377,590,106 in 1966 and $1,263,087,491 in 1965; operating, selling and general administrative expenses, $445,641,293 in 1966 and $412,186,199 in 1965.

RETIREMENT AND SAVINGS PLANS—Under the Retirement Plan of the Company and its subsidiaries, there was an estimated unfunded past-service liability of $25 million as of February 1, 1967. Provision was made during the fifty-two week period ended February 1, 1967 for interest on the unfunded past-service liability and full funding of current service liability. During the fiscal year, the Company contributed $1,238,663 to the Employee Savings Plan.

LEASE OBLIGATIONS—The Company had 683 leases in effect as of February 1, 1967 having terms of more than three years after that date. These leases provided for present aggregate minimum annual rentals of approximately $25,208,000 plus, in certain instances, real estate taxes and other expenses. Additional amounts based upon percentage of sales may become due on 32% of these leases. The Company has no obligation under any of these leases beyond 1999 except for two ground leases which extend through years 2017 and 2029.

PROPERTIES AND EQUIPMENT	*February 1,* 1967	*February 2,* 1966
Land	$ 43,930,062	$ 35,681,312
Buildings	$221,243,364	$200,734,798
Fixtures and Equipment	183,772,711	163,193,179
	$405,016,075	$363,927,977
Less—Reserves for depreciation	125,638,224	108,568,848
	$279,377,851	$255,359,129
Leasehold improvements, after amortization	$ 20,903,974	$ 20,535,681
Properties and Equipment—Net	$344,211,887	$311,576,122

LONG-TERM DEBT (Less amounts due within one year)	*February 1,* 1967	*February 2,* 1966
Montgomery Ward & Co., Incorporated		
4⅞% Sinking Fund Debentures, due 1990	$150,000,000	$150,000,000
4¾% Unsecured Note, due 2020	2,166,667	—
Montgomery Ward Credit Corporation		
*Term Notes due 1970-71	50,000,000	50,000,000
4⅞% Debentures, due 1980	50,000,000	50,000,000
4¾% Debentures, due 1981	25,000,000	25,000,000
5¼% Subordinated Debentures, due 1981	25,000,000	25,000,000
Montgomery Ward Real Estate Subsidiaries		
4¾% Secured Notes, due serially to 1994	10,171,000	10,366,000
4¾% Secured Notes, due serially to 1995	21,398,000	21,783,000
5¼% Secured Notes, due serially to 1991	16,863,000	17,234,000
	$350,598,667	$349,383,000

*Term Notes in the amount of $34 million provide for interest at a variable rate, which was 6% at February 1, 1967. The balance of the Term Notes have a fixed interest rate of 4¾%.

Under the Indenture for the $4\frac{7}{8}\%$ Sinking Fund Debentures the Company may not declare any dividends on its common stock or acquire any of its classes of stock if, after giving effect thereto, it cannot meet certain financial requirements as defined in the Indenture. Under the most restrictive of these requirements, $28,767,647 of Earnings Reinvested were not restricted at February 1, 1967. Sinking fund payments of $7 million are payable annually beginning in 1975 and $45 million will be due August 1, 1990.

The Secured Notes of the Real Estate Subsidiaries are payable in semi-annual installments approximating $1 million annually. The payments due within one year are included in Notes Payable.

EMPLOYEES' STOCK OPTIONS—Under the Company's stock option plan, 576,605 shares of common stock were reserved as of February 1, 1967 for issuance to officers and key employees. On February 1, 1967, options for a total of 458,755 shares, of which 214,460 shares were exercisable, were held by 220 individuals at prices ranging from $21 to $47 7/8 per share, equal to 100% of market value at dates of grant. Options granted prior to January 1, 1964 are for a period of 10 years and on and after January 1, 1964 for a period of 5 years. Options are exercisable in cumulative installments of 10% per year for options granted prior to May 11, 1962 and 20% per year for options granted thereafter, commencing one year from date of grants. During the 1966 fiscal year, options for 135 shares were exercised.

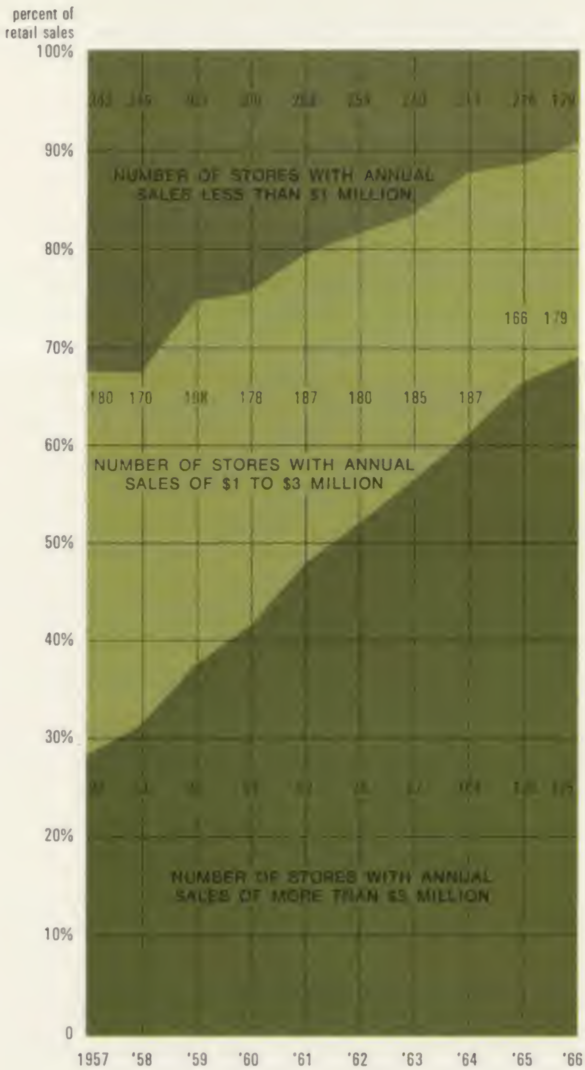
AUDITORS' REPORT

To the Stockholders and Board of Directors, Montgomery Ward & Co., Incorporated:

We have examined the balance sheet of Montgomery Ward & Co., Incorporated (an Illinois corporation) and consolidated subsidiaries as of February 1, 1967, and the related statements of earnings and earnings reinvested for the 52-week period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding 52-week period.

In our opinion, the accompanying financial statements referred to above present fairly the financial position of Montgomery Ward & Co., Incorporated and consolidated subsidiaries as of February 1, 1967, and the results of their operations for the 52-week period then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding 52-week period.

Chicago, Illinois, March 16, 1967 Arthur Andersen & Co.



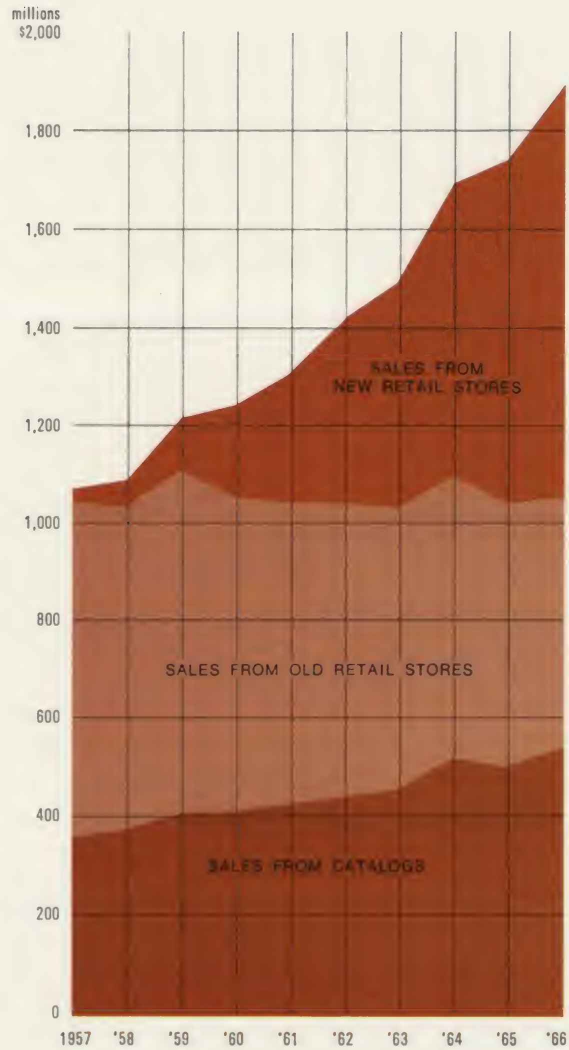
RETAIL SALES: % by store volume categories

Montgomery Ward's 135 largest stores (over $3 million sales) generated $927 million or 69% of total retail sales in 1966 compared with $818.5 million or 67% for 120 comparable volume stores in 1965.

In the 20 major metropolitan areas which are managed by semi-autonomous staffs, 95 retail stores developed more than 50% of the Company's total retail sales. The chart portrays the steadily increasing volume of sales generated by large stores since 1957 when 32 stores with annual sales of more than $3 million accounted for only 28% of the Company's retail sales.

Sales for 179 medium size stores ($1 to $3 million) were $295 million (22%) as compared to $269 million (also 22%) for 166 stores in 1965.

Sales of 179 small stores (less than $1 million), were $121 million (9%) compared to $142 million (11%) for 216 stores in 1965.



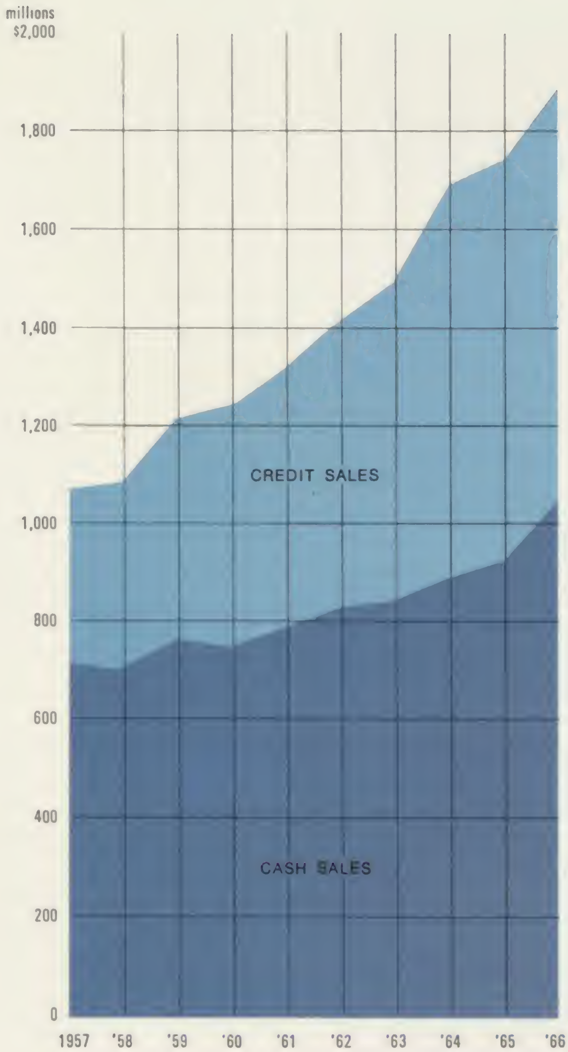
TOTAL SALES: RETAIL STORES-CATALOGS

Retail sales in 1966 totaled $1,343 million compared with $1,230 million last year and $711 million 10 years ago, an 89% increase.

Catalog sales in 1966 totaled $551 million compared with $519 million last year and $363 million 10 years ago.

In 1966, sales from 171 new retail stores (those opened since 1957) accounted for 62% of total retail sales volume compared with 58% for 140 stores in 1965. These 171 new retail stores generated a larger sales volume, $836 million, than did Ward's total chain of 554 retail stores in 1957, $711 million.

In 1966, Montgomery Ward was represented in 105 major metropolitan markets and obtained 70% of its retail sales from such urban area stores, totaling more than $1 billion. Old stores in small communities accounted for 16% of retail sales as compared with 24% in 1965.



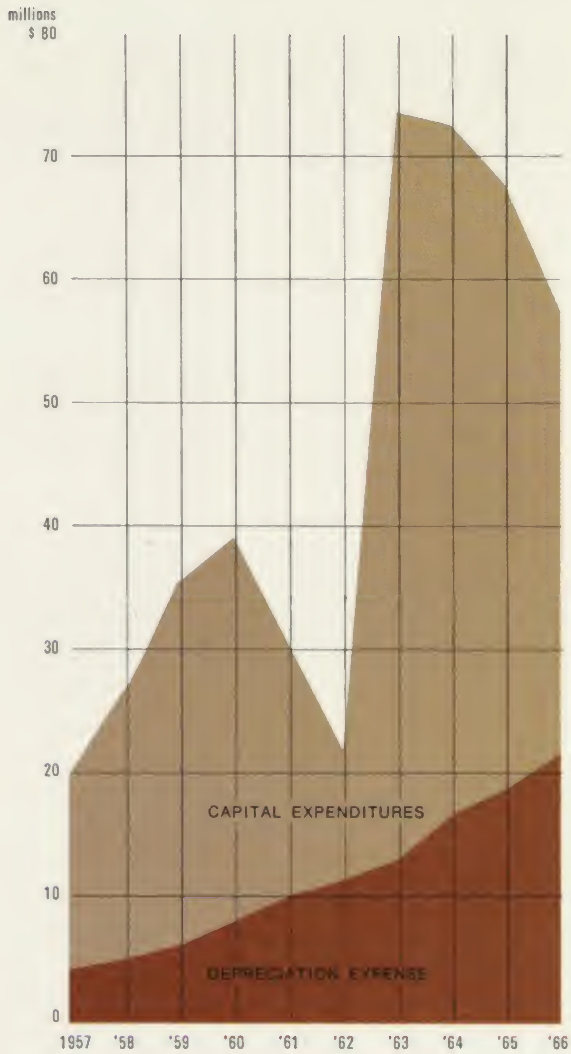
TOTAL SALES: CASH AND CREDIT

Credit sales in 1966 accounted for $838 million compared with $819 million in 1965. This represents a drop from 47% to 44% of total sales, in response to management action taken to accelerate payments and reduce balances of customer accounts. This policy permitted the Company to restrict its borrowings when short-term interest rates were at peak levels.

Accounts receivable outstanding at the end of 1966, principally customer installment accounts, were $845 million, compared to $853 million last year. Despite restrictive credit requirements during 1966, the total number of credit accounts was increased 5% from 4,666,000 to 4,900,000.

Cash sales were $1,056 million, a 14% increase from last year's $929 million.

Aggressive credit promotion plans are expected to reflect themselves in a higher level of credit sales in 1967.



CAPITAL EXPENDITURES

Capital expenditures were $10 million under the 1965 level, dropping to $57,865,851 as compared with $68,202,515. Depreciation charges on the Company's new stores and facilities increased from $19,151,531 in 1965 to $22,057,552 in 1966.

In the past five years, expenditures for the establishment of 113 new retail stores and the modernization of 101 retail stores, plus expenditures for new electronic information processing equipment and other capital improvements totaled $295,936,524.

In 1966, 31 new retail stores were opened, a new computerized Central Information Processing Center was placed in operation, a new Merchandise Research and Development Center was established, and construction was begun on a National Replacement Parts Center.

Present plans provide for 21 new stores in 1967.

ten-year statistical summary

OPERATIONS	1966	1965	1964
Net Sales	$1,894,123,278	$1,748,360,155	$1,697,390,884
Net Earnings	16,528,438	23,962,876	21,865,389
Federal Income Taxes *(including all subsidiaries)*	10,939,000	17,748,000	17,300,000
Dividends	13,556,091	13,555,075	13,549,636
Earnings Reinvested or *(in italics)* Paid Out to Stockholders from earnings of previous years	*2,972,347*	10,407,801	8,315,753
Additions to Properties and Equipment	57,865,851	68,202,515	73,022,509
Depreciation and Amortization	22,057,552	19,151,531	17,142,890
Number of Retail Stores	493	502	502
Number of Catalog Stores	793	864	818
Average Number of Employees	105,423	98,484	93,802

FINANCIAL POSITION	1966	1965	1964
Working Capital	$ 651,016,995	$ 702,628,413	$ 588,516,455
Accounts Receivable	844,561,288	852,546,578	732,663,178
Inventories	408,433,275	400,205,598	349,866,801
Net Investment in Properties and Equipment	344,211,887	311,576,122	269,145,659
Long Term Debt	350,598,667	349,383,000	200,288,000

STOCKHOLDERS' INTEREST	1966	1965	1964
Capital Stock and Earnings Reinvested	$ 659,817,829	$ 656,733,053	$ 646,250,026
Investment per Common Share *(book value of shares outstanding at end of year)*	51.32	51.09	50.27
Earnings per Common Share *(on average number of shares outstanding during the year)*	1.24	1.83	1.66
Dividends per Common Share	1.00	1.00	1.00
Shares Outstanding:			
Class A	139,224	139,224	139,224
Common	12,586,557	12,581,422	12,578,812
Number of Stockholders	87,539	86,737	91,754

1963	1962	1961	1960	1959	1958	1957
$1,500,111,708	$1,425,187,840	$1,325,941,281	$1,248,993,866	$1,222,596,263	$1,092,267,472	$1,073,799,422
20,966,606	20,415,681	15,859,096	15,053,599	30,656,537	28,030,510	29,696,757
17,353,000	20,825,000	16,780,500	16,551,700	32,775,000	28,800,000	30,660,000
13,879,732	13,996,630	14,182,249	20,619,205	27,010,180	27,011,140	30,507,029
7,086,874	6,419,051	1,676,847	*(5,565,606)*	3,646,357	1,019,370	*(810,272)*
74,093,240	22,752,409	30,537,015	39,746,106	36,073,835	27,271,255	20,476,338
13,346,614	11,899,981	10,375,067	8,535,689	6,429,527	5,334,929	4,517,949
512	512	517	529	547	549	554
737	691	676	627	568	527	475
82,890	77,123	72,106	67,258	63,153	58,152	59,714
$ 566,830,515	$ 618,080,594	$ 612,856,332	$ 582,460,730	$ 541,005,545	$ 566,551,714	$ 587,609,314
586,635,226	478,878,281	435,154,943	406,261,049	356,590,631	305,325,253	277,179,867
328,564,429	285,720,832	296,174,404	266,784,895	260,218,266	242,026,480	227,432,485
216,757,449	159,764,797	152,615,883	133,497,069	104,691,071	75,225,195	53,578,754
128,652,000	118,239,000	118,541,000	68,829,000	—	—	—
$ 637,935,982	$ 640,679,610	$ 635,438,336	$ 640,218,052	$ 645,696,616	$ 641,776,909	$ 641,188,068
49.63	49.38	48.80	48.42	48.85	48.57	48.49
1.57	1.51	1.13	1.07	2.28	2.08	2.19
1.00	1.00	1.00	1.50	2.00	2.00	2.25
141,254	201,554	201,554	201,554	201,554	201,554	201,554
12,569,152	12,565,771	12,608,396	12,805,696	12,803,406	12,796,256	12,808,556
96,776	104,580	108,194	107,609	106,006	99,956	92,127

Serving the needs and dreams of men, women and children in 1,856 communities is the daily challenge and market opportunity for Montgomery Ward. New, novelty, staple and fun products have been combined with functional design, colorful displays, convenient services and attractive stores to compete for the continuing attention and patronage of the more than 50 million customers we now serve. Stores pictured at the right–from top to bottom: Monroe, La., Cocoa, Fla., Ventura, Calif., Richmond, Ind.–are representative of the 31 new retail stores opened in 19 states in 1966.

OFFICERS

Robert E. Brooker
Chairman

Edward S. Donnell
President

Richard L. Abbott
Vice President

Ashley D. DeShazor
Vice President

Harold F. Dysart
Vice President

John D. Foster
Vice President

Andrew Lamb
Vice President

James Lutz
Vice President

Sidney A. McKnight
Vice President

Martin D. Munger
Vice President

Frederick H. Veach
Vice President

Daniel Walker
Vice President

Charles W. Wood
Vice President

Thomas O. Stratton
Treasurer

OTHER OFFICERS

Harold W. Bancroft
Assistant Secretary

Narcisse A. Brown
Assistant Secretary

Walter O. Landmann
Assistant Secretary

William F. McNally
Assistant Secretary

James G. McWaters
Assistant Secretary

Irwin J. Shapiro
Assistant Secretary

William A. Voss
Assistant Secretary

Russell E. Mooney, Jr.
Assistant Treasurer

DIRECTORS

Robert E. Brooker
*Chairman, Montgomery Ward, 1962**

James J. Nance
Chairman of the Executive Committee, Montgomery Ward, 1962

Dwight M. Cochran
President, Kern County Land Co., San Francisco, 1965

Fairfax M. Cone
Director, Foote, Cone & Belding Advertising Agency, Chicago, 1962

Edward S. Donnell
President, Montgomery Ward, 1963

Harold F. Dysart
Vice President, Montgomery Ward, 1966

Donald M. Graham
Vice Chairman of the Board of Directors, Continental Illinois National Bank and Trust Company of Chicago, 1962

Edward Gudeman
Partner, Lehman Brothers, New York City, 1963

Lenox R. Lohr
President, Museum of Science and Industry of Chicago, 1956

James Lutz
Vice President, Montgomery Ward, 1966

Ernest S. Marsh
President, The Atchison, Topeka and Santa Fe Railway Company, Chicago, 1959

Sidney A. McKnight
Vice President, Montgomery Ward, 1965

Robert L. Milligan
Chairman, Pure Oil Company, A Division of Union Oil Company of California, Chicago, 1959

Martin D. Munger
Vice President, Montgomery Ward, 1965

Frederick H. Veach
Vice President, Montgomery Ward, 1965

Charles W. Wood
Vice President, Montgomery Ward, 1962

**Date indicates year elected Director*

TRANSFER AGENTS

The Northern Trust Company, Chicago, Ill.
Morgan Guaranty Trust Company of New York, New York, N. Y.

REGISTRARS

The First National Bank of Chicago, Chicago, Ill.
Bankers Trust Company, New York, N. Y.

CORPORATE OFFICES

619 West Chicago Avenue, Chicago, Ill. 60607
Telephone (312) 467-2000

MONTGOMERY WARD

We guarantee the quality of every article as described, and guarantee that it will give you the service you have a right to expect. If, for any reason, you are not completely satisfied with any article purchased from us, you may return it at our expense. We will exchange it for what you want, or refund what you paid, including any transportation charges paid by you.